



OIL SEARCH LIMITED

(Incorporated in Papua New Guinea)

ARBN – 055 079 868

REPORT TO THE AUSTRALIAN SECURITIES EXCHANGE Activities for the Quarter ended 30 September 2010 26 October 2010

HIGHLIGHTS

- **Execution of the PNG LNG Project continued during the quarter with ongoing equipment mobilisation, construction of infrastructure and camp facilities, site preparation, survey work and the commencement of pipe delivery.**
- **During the quarter, Oil Search and its joint venture partners continued to discuss LNG expansion opportunities, including the potential for accelerating drilling on the Hides field. In addition, Oil Search continued to work on the optimisation of its licence interests.**
- **Oil Search's total oil and gas production for the third quarter of 2010 was 1.85 million barrels of oil equivalent (mmboe), 5% lower than second quarter production of 1.94 mmboe. The small fall in output reflected reduced offtake volumes at Hides, due to water shortages at the Porgera mine site, and natural decline. Total oil production was 1.62 million barrels (mmbbls).**
- **1.60 mmbbls of oil were sold during the quarter, at an average oil price of US\$79.06 per barrel. The realised price was similar to the oil price realised in the half year to June, but 9% above the corresponding quarter of 2009. The Company remained unhedged during the period.**
- **Total operating revenue in the third quarter was US\$142.2 million, similar to 2010 second quarter revenue of US\$142.7 million.**
- **At the end of September 2010, Oil Search held US\$1.31 billion in cash, excluding joint venture balances, compared to US\$1.35 billion at the end of June. US\$648.7 million had been drawn down from the PNG LNG project finance facility by the end of the period, while Oil Search's revolving oil facility, which had a balance of US\$319 million at the end of September, remained undrawn.**
- **During the quarter, US\$22.4 million was spent on exploration and evaluation activities, US\$361.0 million on the PNG LNG Project and US\$19.5 million on oil field development work.**

Commenting on the quarter, Managing Director, Peter Botten, said:

PNG LNG Project

“Steady progress was made on the PNG LNG Project during the quarter. Work is focused on preparing the various key sites for the main construction contractors, whose activities will largely commence next year. Key activities include civil works, installation of fencing, road and bridge upgrades, the preparation of laydown areas and the construction of camp facilities. During the quarter, the LNG Plant site camp was completed, earthworks started at the Hides plant site and the Komo airfield and the delivery of pipe to Kopi wharf commenced. In parallel, the key contractors were active during the period on the finalisation of execution plans. Construction also continued on training facilities located at PomTech in Port Moresby and Juni near Hides in the Highlands.

Considerable time was spent during the quarter in assisting PNG companies, to enable them to participate in business opportunities with the principal contractors. Some 700 local businesses have registered on the supplier database and an Enterprise Centre, where PNG nationals can receive advice on a range of business matters, including corporate structuring, is now fully operational. Training of PNG nationals, in both construction skills and operation and maintenance, continued during the period. By the end of the quarter, some 3,000 people were employed by the Project of whom approximately 90% were PNG nationals.”

Production and revenue performance

“Production of oil and gas in the third quarter of 2010 was 1.85 mmbbl. This was 5% lower than in the second quarter, reflecting natural field decline and lower offtake volumes from Hides as a result of water shortages at the Porgera mine site (which has now been returned to normal levels following good rains). The performance from the key PNG oil fields has been very pleasing in 2010 to date, with total oil and gas production for the first three quarters of the year only 2% lower than in the corresponding period of 2009, despite the maturity of our oil fields.

Total operating revenue for the quarter was US\$142.2 million, similar to second quarter revenues of US\$142.7 million. Oil sales volumes were marginally lower than the previous quarter at 1.60 mmbbl but this was offset by a marginally higher realised oil price of US\$79.06 per barrel. Total operating revenue for the first three quarters of 2010 was US\$418.8 million, 35% ahead of the corresponding period in 2009.”

Gas expansion and exploration activities

“Oil Search and its joint venture partners continued to review the potential for LNG expansion during the quarter. Resources for expansion may come from either existing Project fields, from discoveries where there is a high commonality of ownership interest with PNG LNG or from exploration opportunities. There is potential upside in many of the existing fields dedicated to the PNG LNG Project, particularly in the Hides field, where the depth of the gas:water contact has not yet been established and a possible extension to the north west is yet to be fully explored. The Joint Venture is considering accelerating drilling to test these areas, which are currently scheduled to be appraised as part of the Project development drilling programme, due to commence in 2012.

As highlighted previously, in July Oil Search reached agreement with Santos to increase Oil Search's stake in the PRL 9 licence onshore PNG, which contains the Barikewa gas discovery. In addition, Oil Search continued to review its gas acreage portfolio, especially in the offshore area of PNG, with the objective of optimising its position in alternative acreage with potential for further gas discoveries.

During the quarter, the second stage of a 2D onshore seismic programme in the PNG Highlands commenced and planning took place for the second stage of an offshore PNG 3D seismic survey. Phase II of the 3D offshore survey will commence in the fourth quarter. Both these surveys are designed to identify and mature gas prospects for future drilling.”

Strategic Review

“Work is continuing on a company-wide strategic review. Designed to refine the vision for Oil Search, this review is now at an advanced stage.

The key conclusions of the study will be communicated to shareholders towards the end of 2010 and around our annual results announcement in early 2011.”

PETER BOTTEN, CBE
Managing Director
26 October 2010

2010 THIRD QUARTER PERFORMANCE SUMMARY

	Quarter End			Year to Date		Full Year
	Sept 2010	June 2010	Sept 2009	Sept 2010	Sept 2009	Dec 2009
PRODUCTION DATA						
Crude oil production ('000 bbls)	1,619	1,691	1,834	5,040	5,096	7,068
Gas production (mmscf)	1,184	1,319	1,348	3,931	4,202	5,515
Hides condensate ('000 bbls)	30	33	32	99	103	135
Barrels of oil equivalent ('000 boe)	1,846	1,944	2,090	5,794	5,899	8,122
SALES						
Internal oil usage ('000 bbls) ¹	25	22	17	67	58	76
Sales volume ('000 bbls)	1,595	1,622	1,554	4,819	4,540	6,953
Gas equivalent sales (mmscf) ²	1,244	1,395	1,409	4,136	4,362	5,652
Hides other condensate ('000 bbls) ³	4	5	7	15	27	33
Crude inventory ('000 bbls) ⁴	374	376	679	374	679	222
Barrels of oil equivalent sold ('000 boe)	1,806	1,860	1,796	5,523	5,294	7,928
FINANCIAL DATA ⁵						
Oil sales (gross) (US\$m)	126.1	127.8	112.6	372.1	267.4	454.7
Gas and refined product sales (US\$m)	9.6	9.7	6.8	28.0	19.7	27.7
Other field revenue (US\$m)	6.5	5.2	6.1	18.7	23.5	29.8
Total operating revenue (US\$m)	142.2	142.7	125.5	418.8	310.6	512.2
Average realised oil price (US\$ per bbl)	79.06	78.81	72.44	77.22	58.89	65.39
Cash (US\$m) ⁶	1,307.3	1,348.8	408.3	1,307.3	408.3	1,255.1
Debt (US\$m)						
- PNG LNG financing	648.7	503.0	Nil	648.7	Nil	Nil
- Revolving oil facility	Nil	Nil	Nil	Nil	Nil	Nil
Net cash (US\$m)	658.6	845.8	408.3	658.6	408.3	1,255.1

- 1 Oil used within Oil Search's operations and not available for sale
- 2 Gas equivalent sales includes some Hides condensate sold under the same commercial arrangement
- 3 Hides other condensate includes various other refined products (Naphtha and diesel)
- 4 Includes minor field quality adjustments
- 5 Revenue data disclosure aligned to annual report format
- 6 Excludes share of cash balances of joint venture interests
- 7 Prior period comparatives updated for subsequent changes
- 8 Numbers may not add due to rounding

Production in the third quarter of 2010 was 1.85 mmmboe net to Oil Search, produced at an average rate of 20,076 barrels of oil equivalent per day (boepd). The lower production was due to reduced offtake volumes at Hides resulting from water shortages at the Porgera mine site and natural field decline.

Oil production available for sale (production less internal usage) in the quarter was 1.59 mmmbbls. Oil sales for the period were 1.60 mmmbbls and the crude inventory at the end of the quarter was 0.37 mmmbbls. The average oil price realised for the quarter was US\$79.06 per barrel. The Company did not undertake any hedging transactions during the period and remains unhedged.

Sales revenue from oil, gas and refined products was US\$135.7 million. Other revenue of US\$6.5 million consisted largely of rig lease income and infrastructure tariffs.

Exploration and evaluation expenditure during the quarter was US\$22.4 million, spent primarily on site preparation for the Mananda Attic well in PNG and on Jebel Al Milh-1 in

Yemen. Oil Search's share of PNG LNG Project costs were US\$361.0 million during the quarter, funded 70% by drawdowns of funds from the PNG LNG Project finance facility and the remaining 30% by cash reserves. Expenditure on producing assets and other capital costs totalled US\$21.3 million, predominantly spent on the Moran 15 development well.

At 30 September 2010, Oil Search had cash of US\$1.31 billion (excluding joint venture balances), compared to US\$1.35 billion at the end of June, while US\$648.7 million had been drawn down under the PNG LNG project finance facility, compared to US\$503.0 million at the end of June. At the end of September, the Company had an undrawn revolving oil facility of US\$319 million.

(US\$ million)	Quarter End		Year to Date		Full Year	
	Sept 2010	June 2010	Sept 2009	Sept 2010	Sept 2009	Dec 2009
SUMMARY OF CAPITAL EXPENDITURE						
Exploration & Evaluation ¹						
PNG – Oil and Gas	14.5	57.2	91.1	101.7	186.4	40.0
Gas Commercialisation	0.3	0.8	0.7	2.2	1.9	314.8
MENA	7.6	9.2	26.8	23.2	54.6	83.8
Total Exploration & Evaluation	22.4	67.2	118.6	127.1	242.9	438.6
Development ¹	361.0	220.6	-	878.5	-	-
Production	19.5	1.1	25.2	30.3	123.0	142.3
Other Property Plant & Equipment	1.8	1.1	0.9	3.9	3.2	5.1
TOTAL CAPITAL EXPENDITURE	404.7	290.0	144.7	1,039.8	369.1	586.0
SUMMARY OF EXPLORATION & EVALUATION EXPENSED ²						
From current year expenditure						
PNG – Oil and Gas	8.5	71.1	(0.9)	78.5	9.8	16.4
Gas Commercialisation	0.3	0.8	0.7	2.2	1.9	2.4
MENA	2.9	5.8	3.1	11.1	9.6	53.1
Total	11.7	77.7	2.9	91.8	21.3	71.9
Prior year expenditures expensed	-	13.8	-	17.5	-	4.0
TOTAL EXPLORATION & EVALUATION EXPENSED	11.7	91.5	2.9	109.3	21.3	75.9

1 Following Financial Close of the PNG LNG Project, all LNG expenditure for the 2010 period is disclosed as Development expenditure. Prior period expenditure in relation to the PNG LNG Project is classified as Exploration & Evaluation expenditure.

2 Exploration expensed includes costs of unsuccessful wells except where costs continue to be capitalised, general administration costs and geological and geophysical costs of new venture activity. Costs relating to permit acquisition costs, expenditure associated with the drilling of wells that result in a successful discovery of potentially economically recoverable hydrocarbons and expenditures on exploration and appraisal wells pending economic evaluation of recoverable reserves are capitalised.

3 Prior period comparatives updated for subsequent changes.

4 Numbers may not add up due to rounding.

PRODUCTION

	Quarter End			Year to Date		Full Year
	Sept 2010	June 2010	Sept 2009	Sept 2010	Sept 2009	Dec 2009
Oil Production ('000 bbls)						
- Kutubu	885	916	1,018	2,729	2,775	3,877
- Moran	646	665	665	2,003	1,798	2,537
- SE Mananda	20	26	45	76	170	199
- Gobe Main	13	17	15	46	44	61
- SE Gobe	55	67	91	186	309	394
Total PNG ('000 bbls)	1,619	1,691	1,834	5,040	5,096	7,068
Hides gas production (mmscf)	1,184	1,319	1,348	3,931	4,202	5,515
- Hides condensate ('000 bbls)	30	33	32	99	103	135
Total Production ('000 boe)	1,846	1,944	2,090	5,794	5,899	8,122

- 1 Prior period comparatives updated for subsequent changes.
- 2 Numbers may not add due to rounding.

Kutubu (PDL 2 – 60.0 %, operator)

Third quarter production net to Oil Search was 0.89 million barrels, 3.4% lower than in the second quarter of 2010. Gross production rates averaged 16,011 bopd during the period, down from 16,758 bopd in the previous quarter.

During the quarter, all Agogo wells were shut-in in mid-September for a scheduled shutdown of the Agogo production separator and a compressor service, which is now complete. In addition, due to flow-line repairs, UDT 8/9 flowed at restricted production rates during August and September.

The testing of individual zones in key wells at Usano and Agogo for reservoir management purposes continued during the quarter. The Hedinia reservoir interval in the ADD 5 well was tested for the first time and flow rates of 1,000 bopd were achieved. Testing of the remaining three untested deeper intervals in the ADT2 ST3 well, previously planned for the third quarter, is now scheduled to take place in the fourth quarter of 2010 or early 2011.

Technical work continued on a number of drilling opportunities which are being considered for 2011. These include a development well in the Main Block Toro reservoir in the Kutubu field, a new gas injection well at Usano and a second appraisal well in the Agogo forelimb area.

Additionally, a number of workover opportunities are being considered for a 2011 campaign with the Hydraulic Workover Unit.

Moran Unit (49.5 %, based on PDL 2 – 60.0 %, PDL 5 – 40.7 % and PDL 6 – 72.5 %, operator)

Oil Search's share of 2010 third quarter production from Moran was 0.65 million barrels, which was 2.9% lower than in the second quarter of the year. The field produced at a gross average rate of 14,186 bopd compared to 14,770 bopd in the second quarter of 2010.

Moran performance during the quarter remained largely in line with expectations, although production rates were impacted by a number of minor issues. These included

down-hole hydrates in the Moran 11 well, which have now been successfully cleared, a scheduled compressor service and flowline repairs in the NW Moran area following a landslide.

The Moran 15 well spudded in July and reached a total depth of 2,885 metres MD at the end of August. The well has successfully confirmed the presence of oil in both the Toro and Digimu reservoirs in an up-dip location of the Moran C Block. The well was subsequently sidetracked from below the Digimu to further appraise the structural geometry of the fault block and reached a total depth of 4,074 metres MD in September. Operations are now underway to complete the well as an oil producer, with first oil expected by the end of October.

Following completion of Moran 15 ST1, the rig will be skidded across to Moran 5 ST2 which will be re-entered to run a new completion. The re-completion of the Moran 5 ST2 well is expected to result in improved injection rates to support key producers in this part of the Moran field.

Gobe (PDL 3 - 36.4% and PDL 4 - 10%, operator)

Oil Search's share of production from the Gobe fields in the third quarter of 2010 was 0.07 million barrels, down 19% on second quarter production.

The gross average production rate for Gobe Main was 21% lower than the second quarter at 1,450 bopd. Production was impacted by a scheduled shutdown of the Gobe Processing Facility (GPF) in August.

Gross average rates at SE Gobe decreased by 18% to 2,346 bopd. This largely reflected the August shut-down of the GPF as well as slickline activity in a number of wells during September.

A number of workover opportunities are being considered for a 2011 campaign with the Hydraulic Workover Unit.

SE Mananda (PDL 2 – 72.3%, operator)

Oil Search's share of third quarter production from the SE Mananda field was 0.02 million barrels, down 23% from second quarter 2010 production levels. Gross average daily production rates from the field were 304 bopd, compared to 399 bopd in the second quarter. Rates were impacted during the quarter by hydrates at SEM 3 and a choke change-out at SEM 4.

Hides Gas to Electricity Project (PDL 1 - 100%)

2010 third quarter production of gas for the Hides Gas to Electricity Project was 1.18 billion cubic feet, produced at an average daily production rate of 12.9 million cubic feet per day. This compares to 14.5 million cubic feet per day in the second quarter of 2010. 30,000 barrels of condensate were produced for use within the Hides facility and for local sales. Offtake volumes at Hides were reduced during the quarter due to a water shortage at the Porgera mine site. Following good rains, offtakes had returned to normal by the end of the quarter.

GAS COMMERCIALISATION

PNG LNG Project

Construction activities on the PNG LNG Project continued during the quarter. The key focus areas and achievements were as follows:

- Development of the southern supply port at Kopi, with construction of Wharf 1 completed and the commencement of delivery of line pipe to the Kopi laydown area.
- Ongoing development of the logistics base at Lae.
- Ongoing bridge improvement and road upgrades along the Highlands Highway.
- Ongoing road and bridge improvements in the Kopi to Kikori area.
- Commencement of earthworks at the Hides gas conditioning plant site and Komo airfield.
- Completion of the LNG Plant site camp.
- Mobilisation of heavy machinery for construction.
- Onshore pipeline social and environmental surveys.
- Continued construction of the PomTech and Juni training facilities.

In addition, there were a number of meetings with Landowners to resolve business structuring issues.

The Project's second Environmental and Social Report, covering the second quarter of 2010, was released in August by the Project Operator, ExxonMobil and can be accessed through the PNG LNG website, at www.pnglng.com. Also in August, D'Appolonia S.p.A., which serves as the Independent Environmental and Social Consultant (IESC) for the PNG LNG Project, issued its first report following a site visit in May. As the IESC, D'Appolonia assesses and reports on compliance with the environmental and social provisions contained within PNG LNG's Environmental and Social Management Plan, the associated Lender Environmental and Social Requirements and the Environmental and Social Milestones Schedule. This report is can also be accessed through the PNG LNG website.

Other Gas Initiatives

During the quarter, discussions were held with Oil Search's joint venture partners about LNG expansion opportunities. Discussions were also held regarding the potential acceleration of drilling on the Hides field.

Optimisation of Oil Search's licence interests continued during the third quarter with the signing of farm-in agreement with Barracuda Limited (a Santos subsidiary) under which Oil Search will increase its interest in the PRL 9 licence (which contains the Barikewa gas discovery) initially by 2.5%, to 45.1%, and potentially further, depending on the forward drilling programme in the licence. In addition, Oil Search continued to review a number of farm-in and licence acquisitions opportunities.

EXPLORATION ACTIVITY

PNG

During the quarter, site construction was completed at the Mananda Attic well site in PPL 219 (Oil Search 71.25%, Operator) and the leap frog portion of Rig 104 was moved to location and rigged up. The Mananda 5 well is scheduled to commence drilling in November, following completion of development drilling at Moran. It will target

incremental oil in the Mananda Attic prospect and the evaluation of a deeper Mananda Footwall gas play.

Elsewhere in the Fold Belt, 62 kilometres of 2D seismic was processed over the Angore gas field in the PNG LNG Project area (Oil Search 29.00%) and the Huria lead in PDL 8 and PRL 11 (Oil Search 40.69% and 52.50%, respectively). During the fourth quarter additional 2D seismic will be acquired over Angore and Huria, as well as over leads in the adjacent block, PPL 233.

In the Foreland, 60 kilometres of 2D seismic was evaluated over the Barikewa gas field in PRL 9 (Oil Search 45.1%). The optimal well site location will be determined during the fourth quarter and drilling is scheduled to take place in 2011.

During the quarter, processing of 1,000 square kilometres of 3D seismic data over the offshore licences PPL 234 (Oil Search 80.00%, Operator) and PPL 244 (Oil Search 80%, Operator, subject to Government approvals) commenced. Preparations were made for phase II of the 4,720 square kilometre offshore 3D seismic survey, which is scheduled to commence in November. The objective of this 3D seismic survey is to mature gas prospects in the Gulf of Papua, a proven gas province, prior to drilling in 2011.

Preparations for the Coal Bed Methane drilling programme continued during the quarter. The first of three firm wells, Ningerum-1, commenced drilling shortly after the end of the quarter. Ningerum-1 is located in EL 1725, approximately 53 kilometres north north-west of Kiunga township and 40 kilometres west-south-west of the P'nyang gas field. The well is targeting coals in the Era formation that have been encountered previously while drilling conventional oil and gas wells in the surrounding area. The aim of the well is to identify the coal quality and thickness and evaluate the gas content of any coal encountered.

Yemen

During the quarter, the Jebel Al Milh-1 well in Block 7, Yemen, completed drilling. The well was drilled to 4,227 metres, having penetrated 587 metres of basement. The basement section had good indications of gas while drilling but no liquid hydrocarbons were recovered. Good oil and gas shows were also observed while drilling in a section of highly-fractured sandstones of the Jurassic Lam interval and a cased-hole production test was attempted. No flow was observed but it is believed that the interval was badly damaged by cement during drilling. The well has been suspended for possible further evaluation once the full results of the well have been analysed.

Towards the end of the quarter, the rig was moved back to the surface location of the Al Meashar-1 oil discovery well and an appraisal well, Al Meashar-2, was spudded in October. The objective of this well is to gain further information on the possible commerciality of Al Meashar. Oil Search holds a 34% working interest in Block 7 and is Operator.

Iraq

The final versions of processed seismic data over Block K42 were received and interpreted during the quarter. The interpretation is expected to be completed in the fourth quarter and will assist in determining the block's potential. Oil Search holds a seismic option in K42 which, following evaluation of the seismic, allows the Joint Venture to apply to the Kurdistan Regional Government (KRG) for a full production sharing contract. The Joint Venture comprises Oil Search (60% and Operator) and Shamaran BV (20%), with the KRG holding the remaining carried 20%.

During the quarter 47 kilometres of additional seismic was acquired over the Shakal licence which is currently being evaluated (Oil Search 15%).

Tunisia

Seismic operations commenced during August on a 560 kilometre 2D programme in the Tajerouine (Oil Search 100%) and Le Kef (Oil Search 50%) blocks in Tunisia. Oil Search is operating the programme on behalf of Primoil, the Operator of the Le Kef permit. The programme is being acquired by CGGVeritas and is expected to be completed in the fourth quarter. The data will be used to define prospects for drilling in late 2011/early 2012, when there is a one well commitment in each block.

DRILLING CALENDAR

Subject to Joint Venture approvals, the indicative 2010/2011 exploration and development programme is as follows:

Well	Well type	Licence	OSH interest	Timing
PNG				
Coal Bed Methane x3	Exploration	Various	100.0%	4Q 2010
Mananda Attic	Exploration	PPL 219	71.3%	4Q 2010
IDT B	Development	PDL 2	60.0%	1Q 2011
UDT K	Development	PDL 2	60.0%	2Q 2011
Moran	Development	Moran Unit	49.5%	3Q 2011
Huria 1	Exploration	PDL 8/PRL 11	40.7%/52.5%	4Q2011
Barikewa 2	Appraisal	PRL 9	45.1%	4Q2011
Flinders 1	Exploration	PPL 244	80.0%	4Q2011

Yemen				
Al Meashar-2	Exploration	Block 7	34%	4Q 2010
Tunisia				
Tajerouine-1	Exploration	Tajerouine	100.0%	4Q2011

Note: Wells and timing subject to change

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